

Message Text

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SUBJ: LETTER FROM FINANCE MINISTER TO SECRETARY

REQUESTING U.S. ECONOMIC ASSISTANCE

REF: A. MADRID 758, B. MADRID 761

1. VILLAR MIR'S LETTER TO THE SECRETARY PAINTS A GRIM PICTURE OF THE SHORT-TERM OUTLOOK FOR SPAIN'S ECONOMY AND EMPHASIZES THE NEW FINANCE MINISTER'S CONCERN ABOUT SPAIN'S ABILITY TO MEET ITS DEBT SERVICING OBLIGATIONS OVER THE NEXT FEW YEARS. I WOULD NOT DOWNPLAY THE ECONOMIC PROBLEMS WHICH SPAIN, LIKE OTHER COUNTRIES, IS FACING, NOR THE IMPORTANCE OF COPING WITH THESE PROBLEMS IN A MANNER THAT WILL NOT DISRUPT AN ORDERLY POLITICAL EVOLUTION. DEALING WITH INFLATION, A LARGE BALANCE OF PAYMENTS CURRENT ACCOUNT DEFICIT, AND LAGGING INVESTMENT HAVE BEEN TOP GOS PRIORITIES FOR THE PAST YEAR AND A HALF. THESE CONCERNS HAVE NOT BEEN SUBMERGED-- BUT RATHER HAVE BEEN INDIRECTLY UNDERSCORED--BY RECENT PUBLIC PRONOUNCEMENTS BY BOTH THE PRIME MINISTER AND FINANCE MINISTER, RESPONDING TO FELT POLITICAL NEEDS, THAT SPANISH ECONOMIC GOALS ARE TO ATTAIN FULL EMPLOYMENT AND A MORE JUST DISTRIBUTION OF THE ECONOMIC BURDEN. DOUBTLESS THERE IS CONSIDERABLE DEBATE WITHIN THE SPANISH GOVERNMENT AS TO WHERE THE REAL PRIORITIES SHOULD AND REALISTICALLY CAN BE. VILLAR MIR HIMSELF HAS SAID PRIVATELY THAT HE BELIEVES MAJOR RESTIMULATION OF THE CONOMY

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IN THE NEAR FUTURE WOULD BE UNREALISTIC.

2. DURING THE PAST YEAR, THE GOS WAS MODERATELY SUCCESSFUL IN LOWERING THE STILL HIGH RATE OF INFLATION AND IN REDUCING ITS BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT. IT HAS ELECTED TO MAINTAIN ITS RESERVES AT A HIGH LEVEL (OFFICIAL RESERVES OF \$5.9 BILLION AT THE END OF 1975, INCLUDING \$602 MILLION IN GOD VALUED AT \$42 PER OUNCE) BY INCREASING ITS TOTAL FOREIGN INDEBTEDNESS TO AN OFFICIALLY ESTIMATED \$8.7 BILLION. THE PRIVATE EXTERNAL DEBT PORTION OF THIS TOTAL IS NOW ABOUT \$4.5 BILLION, ACCORDING TO VILLAR MIR. LOCAL COMMERCIAL BANKING SOURCES ATTRIBUTE THE RAPID RISE OF PRIVATE DEBT TO THE NATURAL IMPULSE TO BORROW ABROAD WHEN INTERNAL CREDIT IS TIGHT AND TO IMPLICIT GOVERNMENT ENCOURAGEMENT OF SUCH BORROWING TO HELP MAINTAIN THE NATION'S FOREIGN EXCHANGE RESERVES.

3. SPAIN MAY HAVE CREATED FOR ITSELF A SHORT-TERMS DEBT SERVICING PROBLEM BY ITS RELUCTANCE TO DRAW DOWN RESERVES AND BY ENCOURAGEMENT TO THE PRIVATE SECTOR TO BORROW SHORT-TERM ABROAD. MOREOVER, IT OBVIOUSLY CANNOT CONTINUE INDEFINITELY THE BASIS BALANCE OF PAYMENTS DEFICIT OF THE PAST TWO YEARS. YET AS IT ENTERS A POLITICALLY VOLATILE PERIOD, THE PRESSURES FOR MORE EXPANSIONARY FINANCIAL POLICIES WILL BE GREAT. EMBOFFS WILL BE MEETING WITH FINANCE MINISTRY OFFICIALS TO DISCUSS GOS ECONOMIC AND FINANCIAL PROJECTIONS FOR 1976 IN ORDER TO IDENTIFY MORE SPECIFICALLY WHAT GOS CONSIDERS ITS MAIN PROBLEM AREAS AND TO DEVELOP FURTHER THE EMBASSY'S OWN ASSESSMENT. PRELIMINARY CONVERSATIONS WITH DIRECTOR GENERAL LEVEL OFFICIALS INDICATE THAT VILLAR MIR HAS BEEN OPERATING PRETTY MUCH ON HIS OWN IN HIS OWN MINISTRY IN PREPARING HIS APPROACH TO THE UNITED STATES FOR LARGE ASSISTANCE.

4. SOME OF THE BILATERAL TRADE PROBLEMS RAISED BY VILLAR MIR, SUCH AS HIS REQUEST THAT THE U.S. REFRAIN FROM IMPOSING QUOTAS ON IMPORTS OF SPANISH SHOES AND HIDES, ARE WELL TAKEN. RECENT RELEASE OF FIGURES SHOWING THAT SPAIN HAD A \$1.8 BILLION TRADE DEFICIT WITH THE U.S. DURING 1975 HAS RESULTED IN SERIOUS OFFICIAL AND PUBLIC EXPRESSIONS OF CONCERN. SHOULD WE FURTHER RESTRICT IMPORTS OF SPAIN'S MOST IMPORTANT EXPORT TO THE U.S., THE GOS AND THE SPANISH PUBLIC WOULD UNDOUBTEDLY CONSIDER SUCH ACTION UNFRIENDLY AND A VIOLATION OF THE SPIRIT CONFIDENTIAL

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OF OUR BILATERAL TREATY AND THE AIMS OF MTN.

5. ON THE OTHER HAND, VILLAR MIR'S REQUEST FOR MASSIVE U.S. FINANCIAL ASSISTANCE REFLECTS AN UNREALISTIC CONCEPTION OF THE ABILITY OF THE U.S. GOVERNMENT TO HELP OTHER COUNTRIES WITH BALANCE OF PAYMENTS DIFFICULTIES.

6. OUR RESPONSE SHOULD, I BELIEVE, DEMONSTRATE A SYMPATHETIC

ATTITUDE TOWARD SPAIN'S ECONOMIC AND FINANCIAL PROBLEMS AT THIS CRITICAL JUNCTURE IN SPANISH HISTORY, SEEK ADDITIONAL INFORMATION IN PREPARATION FOR EVENTUAL CONSULTATIONS WITH A SPANISH MISSION AT A LATER DATE, AND TRY TO INVOLVE QUALIFIED INTERNATIONAL ORGANIZATIONS SUCH AS THE IMF AND THE OECD. IN BELIEVE WE SHOULD ALSO DISABUSE THE MINISTER OF UNREALISTIC EXPECTATIONS BY POINTING OUT ORALLY THAT OUR ABILITY TO HELP UNILATERALLY ON A GOVERNMENT-TO-GOVERNMENT BASIS IN RESOLVING SPAIN'S FINANCIAL DIFFICULTIES IS EXTREMELY LIMITED.

7. IN REPLY TO THE FINANCE MINISTER'S LETTER, THE EMBASSY SUGGESTS THE DEPARTMENT INCLUDE THE FOLLOWING POINTS:

A. THE U.S. IS, OF COURSE, ALWAYS PREPARED TO DISCUSS WITH THE GOS ECONOMIC MATTERS OF MUTUAL INTEREST.

B. TO THIS END, WE WOULD WELCOME A SPANISH TECHNICAL MISSION IN WASHINGTON IN THE FUTURE AFTER WE HAVE RECEIVED FROM THE GOS AND HAVE HAD TIME TO ANALYZE MORE DETAILED INFORMATION ON SPAIN'S ECONOMIC SITUATION IN GENERAL AND ITS BALANCE OF PAYMENTS AND EXTERNAL DEBT SITUATION IN PARTICULAR. THE DATES SUGGESTED WOULD BE TOO EARLY FOR CONSULTATIONS WITH SUCH A MISSION. THE FIRST STEP WOULD BEST BE FOR THE SPANISH GOVERNMENT TO PROVIDE THE EMBASSY WITH THE DETAILED INFORMATION NEEDED FOR A BETTER UNDERSTANDING OF THE PROBLEMS.

C. IN THE MEANTIME, IT WOULD BE USEFUL FOR SPAIN TO DISCUSS ITS PROBLEM ALSO WITH THE INTERNATIONAL MONETARY FUND (IMF), WHOSE JUDGMENTS WOULD BE USEFUL TO ALL CONCERNED.

8. THE REPLY OBVIOUSLY SHOULD BE READY FOR DELIVERY TO VILLAR MIR WITHIN THE NEXT WEEK IN VIEW OF HIS SUGGESTION THAT A MISSION VISIT THE U.S. THE WEEK OF FEBRUARY 16.
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OM I WOULD HOPE THAT DEPARTMENT'S INSTRUCTIONS TRANSMITTING THE SECRETARY'S REPLY WOULD AUTHORIZE ME TO EMPHASIZE TO VILLAR MIR OUR LIMITED ABILITY TO HELP SPAIN RESOLVE ITS FINANCIAL DIFFICULTIES.
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